

SC300.5.3. Performance Pay Pools

SC300.5.3.1. Elements of the Pay Pool Fund. The Pay Pool Fund is a budgetary device used for administering allocation of civilian pay. The Department is committed to ensuring the expenditure of pay pool funds for performance-based contributions both at individual and organizational levels. The Pay Pool Fund is comprised of 3 elements, which are expressed as percentages. Element 1 represents basic pay funds that under Title 5, United States Code (5 U.S.C.) were historically spent on within-grade increases, quality-step increases, and promotions between General Schedule grade levels that no longer exist under NSPS. The Department will establish and may periodically adjust Element 1 funding floors. Components will have the flexibility to set funding floors at the pay pool level as long as the Component meets the funding floor level set by the Department. Element 2 represents funds (if any) that remain available from the government-wide general pay increase after the Secretary has exercised his authority to fund any Rate Range Adjustments and/or Local Market Supplements. The funds associated with Element 2 are available to the Pay Pool Fund for increases to basic pay and/or bonus. The total of Element 1 and 2 should be considered as a guideline in establishing the total amount of continuing pay. Funds available for increases to base salary may be used for bonus at the pay pool level where appropriate, provided Element 1 base salary funding floors are expended as established at the Component level. Element 3 represents funds spent for performance-based cash awards. The funds associated with Element 3 are available only for bonus. Components may also allocate additional funds to any element of the Pay Pool Fund.

SC300.5.3.2. Calculation of the Value of the Pay Pool Fund. The dollar value of the Pay Pool Fund is calculated by multiplying the sum of base salaries of those employees in a pay pool on the last day of the pay pool's appraisal period by the sum of the percentages assigned to the Pay Pool Fund elements described in SC300.5.3.1. For example, assume the sum of base salary in a pay pool is \$4,500,000, and the sum of the three funding elements is 3.7% (2.2%, 0.5%, and 1.0% respectively). The value of the pay pool fund = \$4,500,000 X 0.037 = \$166,500.

SC 300.5.3.3. Notice to Employees. Minimum communication requirements are identified at SC400.11.2.

SC300.5.4. Performance-Based Payout. Performance-based payouts will be effective the first day of the first pay period beginning on or after January 1 of each year. Performance-based payouts made from the pay pool funds will consist of increases to base salaries, bonuses, or a combination of the two. Bonuses are cash payments and are not considered part of base salary for any purpose.

SC300.5.4.1. Performance payouts will be calculated and administered as specified in SC300.5.3 and SC300.5.6

SC300.5.4.2. Forced distribution of ratings (setting pre-established limits for the percentage or number of ratings that may be assigned) is not permitted.

SC300.5.4.3 Performance-based payouts for specially situated employees (e.g., detailed or temporarily promoted, absent while performing military service, or absent due to a work related injury) will be determined in accordance with SC400 Appendix A – Performance Assessments and Pay Adjustments for Specially Situated Employees.

SC300.5.4.4. Performance-based payouts for employees who have not performed the minimum period of service. Except as otherwise provided, employees covered by NSPS, who at the close of the appraisal period, have not performed the minimum period under NSPS (see SC 400.2.2. Minimum Period of Performance) will not be rated and will not be entitled to a performance-based payout. However, such employees may be considered for incentive award actions under Chapter 45 of title 5 United States Code, if performance during the applicable period merits recognition.

SC300.5.4.5. Performance-based payouts for employees who are no longer covered by NSPS. Employees who are no longer covered by NSPS at the time of payout are not entitled to a performance-based payout. However, such employees may be considered for incentive award actions under Chapter 45 of title 5 United States Code, if performance during the applicable period merits recognition.

SC300.5.5. Pay Band Control Points. Subject to any DoD or Component supplemental guidance, pay band control points may be established in order to manage pay progression. The definition and use of control points must be consistent with merit system principles and will be applied consistently to similar positions in the same pay band and career group within a pay pool.

SC300.5.6. Performance Shares. Eligible employees with a rating of record of 3 or higher will be assigned a number of performance shares within the applicable NSPS share range. See Table 341 Performance Share Ranges below. Considerations in making share assignments may include the complexity of the work, overall contribution to the mission of the organization, organizational success, fiscal soundness, and other criteria consistent with merit system principles. Share assignments may not be influenced by personal bias or favoritism, nor may they involve a prohibited personnel practice. The basis or criteria by which shares are assigned to individual employees will be applied consistently to similar positions in the same pay band and career group within a pay pool.

Table 341 – Performance Share Ranges

Rating of Record	Share Range Available for Assignment
5	5 – 6 shares
4	3 – 4 shares
3	1- 2 shares
2	No shares
1	No shares

SC300.5.6.1. Calculating the Performance Payout.

Organizations will establish an estimated share value, to be expressed as a % of employee salary, for use in budget and compensation planning. This estimate may have to be adjusted either up or down by the Performance Review Authority (PRA) during the final reconciliation process to ensure that total payouts do not exceed the available funding. In no case will the estimated share value be used as a mechanism to determine or constrain performance ratings. Performance ratings are determined as described in Section 400.10.

The estimated share value may be communicated to employees as part of notification required in SC 400.11.2.

SC300.5.6.1.1 Consideration in establishing the estimated share value may include such factors as:

- (1) The overall budget resources allocated to pay pool funds (see SC300.5.3);
- (2) The overall compensation philosophy, including:
 - (a) The desired maximum payout to an employee (the highest rated employees receive an increase of x%),
 - (b) The desired minimum payout to an employee (all “successful” receive a minimum increase of y%), and
- (3) The anticipated distribution of performance ratings and share assignments within the workforce.

SC300.5.6.1.2 There are a number of indicators that can assist in estimating the distribution. Some of these include:

- (1) Historical data about the performance ratings and share allocations for the organization adjusted for changes in workforce demographics (after the first year, the primary source of data for estimation purposes will normally be based on the organization’s prior year’s data);
- (2) Historical data derived from the existing DOD demonstration projects about performance ratings and share allocations;
- (3) Mock payouts run to assess the organization’s processes, preparations and readiness for the end of year performance assessments or
- (4) Estimation modeling methodologies

SC300.5.6.2. Payout Budget Reconciliation Process. The PRA may adjust the share value estimate to remain within available funds per paragraph

SC300.5.6.2.1 If changes are made to the estimate, all who were notified of the original estimate will be notified of the changes and the reason for them. In lieu of changing the estimated share the PRA may also choose to allocate additional funds, either from the pay for performance reserve fund (if one was established) or from other available funding sources.

SC300.5.6.3. Calculating the Employee's Payout. An employee's performance payout is calculated by multiplying the employee's base salary at the end of the appraisal period by the number of shares earned by the employee by share value.

$$\text{Employee Performance Payout} = \text{Base Salary} * \text{Shares} * \text{Share Value}$$

SC300.5.6.3.1 Notional NSPS Pay Pool Process Timeline is in Appendix D

SC300.5.6.3.2 Prorating the Payout. Components may issue guidance in accordance with 5 CFR 9901.342(e).

SC300.5.7. Distribution of Payout. Subject to pay pool panel reconciliation and final approval by the pay pool manager, the employee performance payout may be paid as an increase in base salary, a bonus, or a combination of the two. Distribution of the payout as an increase in base salary and/or bonus must be consistent with the requirements of this subchapter, DoD Financial Management policies/directives, and merit system principles.

SC300.5.7.1. Considerations in Determining Payout Distribution. Due to the long-term financial impact of their decisions, rating officials, pay pool panels, and pay pool managers will exercise care in recommending or determining an appropriate distribution of the payout value between a base salary increase and/or a bonus. The basis or criterion by which shares are assigned to individual employees will be applied consistently to similar positions in the same pay band and career group within a pay pool. Consideration may include, but is not limited to:

- (a). Current salary and level and complexity of work performed in comparison with others in similar work assignments;
- (b). Performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards.
- (c). Local market salary levels of comparable occupations in private sector and other government activities;
- (d). Attrition and retention rates of critical shortage skill personnel;
- (e). Overall contribution to the mission of the organization and

(f) Availability of funds.

SC300.5.7.2. Performance-based pay increases will not cause an employee's base salary to exceed the maximum rate for the pay band occupied by the employee. If the approved payout would exceed this limit, the excess amount will be paid as a performance bonus.

SC300.5.7.3. For employees receiving retained rates above the applicable pay band maximum, the entire performance payout will be in the form of a bonus payment.

SC300.5.8. Discretionary Performance Payouts Managers in conjunction with PRAs and senior management, may provide for discretionary performance payouts. Components should establish internal procedures. Pay flexibilities under this provision permit additional compensation to recognize extraordinary performance by individuals and teams/organizations. Appendix C – Discretionary Performance Payouts describes payments that may be made. Discretionary payouts are separate and in addition to those available under an incentive award program.

SC300.5.9. Pay for Developmental Employees Accelerated Compensation for Developmental Positions (ACDP) only apply to Pay Band 1 employees in developmental positions (see Table 5.9.1). The ACDP is an increase to employee base salary, bonus or a combination of these that may be provided to employees participating in Component-training programs or in other developmental capacities as determined by Component policy. The ACDP is awarded to recognize growth and development in the acquisition of job related competencies combined with successful performance of job objectives. Employees with a rating of record below Level 3 are not eligible to receive an ACDP. The ACDP payment is in addition to the annual performance payout. The decision to grant the ACDP is entirely at the discretion of management. The conditions for payment of the ACDP should be consistent with merit systems principles. The amount of the ACDP generally will not exceed 20% and may not cause the employee's base salary to exceed the top of the employee's pay band. The ACDP may be awarded during the appraisal period or in conjunction with the annual performance payout.

Employees in Band 1 developmental positions may be included in pay pools with full-performance employees, or distinct pay pools may be established exclusively for developmental employees. Subject to Component instructions, developmental employees may receive additional increases to pay and/or bonus outside the pay-for-performance system established by this section. Organizations choosing to distinguish developmental employees for pay purposes must establish and document standards by which such employees will be identified and criteria by which additional pay increases will be determined. In all cases, additional forms of compensation under this authority will be consistent with merit systems principles. The basis or criteria for payments made under this authority must be applied consistently to similar positions within a pay pool.

Table 300.5.9.1

Career Group	Pay Schedule	Band
Standard	Professional/Analytical	YA-1
Scientific and Engineering	Professional	YD-1
Medical	Professional	YH-1
Investigative and Protective Services	Investigative	YK-1

Appendix C – Discretionary Performance Payouts

Discretionary Performance Payouts: Managers in conjunction with PRAs and senior management, may use appropriate funding sources (not pay pool funds) to provide for discretionary performance payouts. These payouts may include Extraordinary Pay Increases (EPI), or Organization Achievement Recognitions (OAR). Payments made under this authority must be approved by the appropriate pay pool manager.

Extraordinary Pay Increase (EPI). An EPI is an increase to employee base salary, bonus or a combination of these intended to reward employees when the payout formula does not adequately compensate them for their extraordinary performance and results. The EPI payment is in addition to the annual performance payout and is made in conjunction with the annual performance payout.

The EPI should be used sparingly and only to reward exceptionally high-performing employees whose performance and whose contributions to the organization are of an exceedingly high value. The performance and results must be expected to continue at an extraordinarily high level in the future. An increase to base salary resulting from an EPI is permanent and does not require future revalidation. The decision to grant the EPI is entirely at the discretion of management with final approval by the PRA.

Only employees who have achieved a level 5 rating of record are eligible for an EPI. The amount of the EPI awarded in the form of an increase to base salary may not cause the employee's base salary to exceed the top of the employee's pay band.

Organizational / Team Achievement Recognition (OAR). The OAR is an increase to employee base salary, bonus or a combination of these in order to recognize the members of a team, organization or branch whose performance and contributions have successfully and directly advanced organizational goal. The OAR payment is made in conjunction with the annual performance payout.

The decision to grant the OAR is entirely at the discretion of management, with final approval by the pay pool manager. If the employees to be recognized belong to separate pay pools and are employed by different Components (e.g. matrixed employees in a Program Executive Office) the recommendation shall be made by the pay pool manager to which the majority of the employees belong. Employees with a rating of record below Level 3 are not eligible to receive an OAR. The amount of the OAR awarded in the form of an increase to base salary may not cause the employee's base salary to exceed the top of the employee's pay band.

Appendix D

Notional NSPS Pay Pool Process Timeline

Step	Actions
1	<p>Preferably within the first 90 days of the appraisal period, but not less than 90 days prior to the end of the appraisal period, establish:</p> <ul style="list-style-type: none"> • The roles and responsibilities of the PRA, the Pay Pool Manager and the Pay Pool Panel; • The identity or membership of the PRA, the Pay Pool Manager and the Pay Pool Panel; • Pay pool composition and structure (the organizations, functions, sub-pay pools, etc. that describe the makeup of the pay pool); • Pay pool policies, including <ul style="list-style-type: none"> ○ Pay Pool Fund, reserve, and discretionary pay funds ○ Timeline ○ Estimated share value; ○ Considerations in making share assignments and payout distribution; <ul style="list-style-type: none"> ▪ Amounts available for base salary increases and bonuses ○ Use of control points, if any.
2	<p>At the conclusion of the appraisal period, the rating official (normally the first-level supervisor) will request that employees provide self-assessments describing their own accomplishments for each objective in the performance plan in sufficient time to consider in their supervisory assessment. The employee should describe their accomplishments relative to performance expectations, including job objectives, contributing factors, organizational mission and goals, team goals, etc.</p>
3	<p>The rating official considers input from the employee, personal observations, and other sources as appropriate, to assess the level of the employee's performance for each objective in the performance plan. A recommended rating of record is derived in accordance with the procedures at SC400.10 and SC400.11. The rating official submits recommended ratings, shares, and payout distribution (based upon the share value estimate) for review by the pay pool panel. Organizations may establish policies that provide for a second level management review or sub-pay pool structure to manage the flow of recommended ratings, shares, and payout distribution.</p>
4	<p>The pay pool panel meets to review and reconcile recommended ratings, shares and payout distribution for employees within that pay pool to ensure equity and consistency. The rating of record, share assignment and payout distribution are finalized through one or more pay pool panel</p>

	<p>meetings. Management will determine the appropriate administrative procedures for this process and the operation of the pay pool panel.</p> <p>Typically, the meeting involves a presentation of employee's performance and recommended rating, shares and payout distribution followed by discussion by panel members to review the basis for the recommendations. Discussion should involve direct experiences and current information about employees.</p> <p>When determining employee's payout distribution, pay pools should consider such things as:</p> <ul style="list-style-type: none"> • Current salary and level and complexity of work performed • Performance-based compensation received during the rating cycle associated with promotions, reassignments, or awards • Local market salary levels of comparable occupations • Attrition and retention rates of critical personnel • Overall contribution to the mission of the organization • Available pay pool funds <p>Before the payouts are finalized, the pay pool manager must reconcile any differences between the funds allocated based upon the share value estimate and the actual pay pool budget. Management will determine the appropriate administrative procedures for this process.</p> <p>Pay pool panel decisions should be based on a consensus of the members. However, if agreement cannot be reached, the pay pool manager will make the final decision. Changes made to a recommended performance rating, share selection or distribution should be communicated back to the rating official along with the rationale for the change. The rating official should then be afforded the opportunity to provide further justification before the change becomes final.</p>
5	<p>Upon completion of the pay pool panel process, the pay pool manager approves the ratings, shares and payout distribution. Once finalized, the employee's performance rating becomes their rating of record. The rating of record, shares and payout distribution are documented and serve as the basis for performance feedback discussions with the employee.</p>
6	<p>Before the payout, the supervisor or rating official communicates the approved rating and payout results to each employee. Potential opportunities for increasing performance for the upcoming appraisal period are also discussed. This information will be maintained consistent with established agency procedures. The payouts become effective as prescribed by DoD issuance.</p>

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